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C O N F I D E N T I A L SECTION 01 OF 02 AMMAN 007793

SIPDIS

PASS TO USTR
STATE FOR NEA FRONT OFFICE, NEA/ELA, NEA/IPA
STATE ALSO FOR EB/TPP/ABT
COMMERCE/ITA/OTEXA - M. D'ANDREA

E.O. 12958: DECL: 09/28/2015
TAGS: ETRD KTEX ECON PREL IS JO
SUBJECT: JORDAN AND ISRAEL CLOSE TO NEW QIZ ARRANGEMENT

REF: A. TEL AVIV 5077

¶B. AMMAN 4440

Classified By: CDA David Hale for Reasons 1.4 (b) and (d).

¶1. (U) This message contains an action request. See para 11.

¶2. (C) SUMMARY: Jordan is close to agreeing with Israel on an amendment to their Qualifying Industrial Zone (QIZ) Agreement that would change the terms of the product review mechanism by which Israeli content in Jordanian QIZ products is audited. The cumbersome pre-audit of every single product has been an inefficient, non-competitive drain on Jordanian manufacturers, who prefer a system closer to the Israel-Egypt QIZ model (Refs). An initial meeting between the GoJ and GoI has produced potential alternatives, including a quarterly audit system to ensure the requirement for 8 percent Israeli content is being met. The two sides will meet again on October 6, and are forwarding to USTR Portman a summary of their preliminary discussions. Jordan seeks USG views on the proposed new arrangement. END SUMMARY.

¶3. (C) Reviewing the QIZ negotiations with Israel, Baha' Al-Armouti, an assistant to the GoJ Ministry of Industry and Trade (MOIT) Secretary General, told econoff that he and Hassan al-Nsour from the MOIT QIZ Unit met with Gabi Bar of Israel's Ministry of Industry, Trade and Labor (MITL) and Yair Shiran of the MITL International Agreements and Trade Policy Department on September 20. Armouti said the Jordanian side cast the meeting in the context of adapting QIZ trade regimes to facilitation of ongoing procedures at Jordan's QIZ factories, which produce mainly garments. Armouti told his Israeli counterparts that an increasing number of Jordanian manufacturers were now balancing their efforts between QIZ production and FTA production on separate lines in the same factories. NOTE: FTA items accounted for roughly a fifth of QIZ factory production in the first half of the year. END NOTE.

¶4. (C) Armouti further highlighted Jordanian manufacturers' frustration with the current product review mechanism whereby each clothing item (by tariff Harmonized System code) must be pre-approved to ensure that it has 8 percent Israeli content. Producers had been raising questions about the inefficiency and non-competitive nature of this procedure since well before Egypt and Israel adopted the post-facto, quarterly content review system in Egyptian QIZ's.

¶5. (C) Armouti reported that at first, Israel insisted that Jordan move to an 11.7 percent content requirement - vice the current 8 percent requirement - if it wanted a product review system similar to the Egyptian model. But the GoJ side elaborated further on why Jordanian manufacturers were shifting to production under the U.S.-Jordan FTA largely to avoid the current cumbersome review system.

¶6. (C) A follow-on Israeli proposal laid out two choices -- either Jordan could fully adopt the Egyptian model with the 11.7 percent content requirement that includes "carry on" provisions from one quarter to the next, or Jordan could modify the Egyptian model to keep an 8 percent content requirement without "carry on." (NOTE: A factory in Jordan now must account for Israeli content in each and every article manufactured; if it purchases "too much" Israeli thread for a certain line, it cannot carry forward that excess content to another article of clothing. In contrast, as Armouti explained it, the Egyptian factory totals up quarterly inputs from Israel and outputs for the U.S. market under the QIZ agreement, and can carry forward excess Israeli content to any other outputs in the next quarter. END NOTE.)

¶7. (C) Noting that the MOIT had generally explored the Egyptian concept with Jordanian manufacturers, Armouti was confident they would prefer the 8 percent content requirement and that they would continue to make arrangements with suppliers about excess content. This was a burden they had already adapted to - notwithstanding additional layers of accounting and administration - said Armouti, in lieu of the

simpler "carry on" provision. He opined that this was a "more intensive" process, but that the 8 percent content requirement would balance more with the FTA.

¶8. (C) All other aspects of the quarterly review system would be identical to the procedure now carried out in Egypt, according to Armouti. The two sides are to meet again on October 6 in Amman to iron out details, with Israel taking the lead in drafting the procedural details.

¶9. (C) Armouti requested the USG,s assessment of this change. He passed two draft documents to be signed by Israeli and Jordanian representatives which outlined the state of play of this QIZ negotiation: a cover letter to USTR Portman to be signed by the two trade ministers, and a one-page "minutes of meeting." (Post is faxing copies to NEA/ELA and relevant agencies.)

¶10. (C) COMMENT: This issue has been a thorn in the side of Jordan-Israel trade relations since the December 2004 Israel-Egypt agreement (Refs). From post,s perspective, settlement of the QIZ content review mechanism would be in the USG interest, as well as eliminate one source of friction in regional economic relations.

¶11. (C) ACTION REQUEST: Given that the two sides must seek final approval from the U.S. for any change to the Jordan-Israel QIZ Agreement, Post believes that a provisional indication of USG approval to the general approach the GoJ and GoI are taking could accelerate the conclusion of these negotiations. Washington guidance in response to Jordan's request for the USG,s assessment is appreciated.
HALE